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Monthly Statistical Report

Prepared by the Statistics Department

Vol. 10, No. 1

FEBRUARY 19, 1986

JANUARY 1986

ESTIMATED U. S. PETROLEUM BALANCE SUMMARY

The decline in crude oil prices in January, one of the largest price changes in any monthly period in recent history, overshadowed all other events affecting the industry. Uncertainty about where a new price equilibrium might be established undoubtedly had a significant impact on the trading decisions of both buyers and sellers. As a result, delivery data for January may well be somewhat distorted and conclusions as to the implications of changes in demand and supply more difficult to draw.

With those caveats in mind, it nevertheless appears that major trends, at least for the short time period under review, have remained largely intact. Increased demand for light products continued to be the major factor in the domestic demand picture, lifting total domestic deliveries some 234 thousand B/D, about 1.4%, over last year's level. Residual fuel oil deliveries, however, declined. Crude production was an estimated 273 thousand B/D higher than last January's, when Alaskan production was reduced by about 100 thousand B/D because of interruptions in pipeline flow. Imports rose about 26% over depressed January 1985 levels; because of hauling time lags, the uncertainties created by the downward spiral of oil prices only minimally affected the rate of shipments arriving in January. Inventories fell a less-than-seasonal 6 million barrels from prior-month levels as refinery operations stayed at relatively high levels and mild weather minimized drawdown of distillate stocks.

PRODUCTS SUPPLIED[1]

Gasoline

DELIVERIES UP ALMOST 5% VERSUS LAST JANUARY'S.

Deliveries of motor gasoline rose an estimated 311 thousand B/D (4.9%) in January over prior-year levels. The major reason for the seemingly strong increase is last January's relatively low deliveries level; on a deseasonalized basis, January 1985 deliveries were some 200 thousand B/D below the levels attained, on average, for ensuing months. Taking this into consideration, it appears that the underlying trend of year-to-year increases in the 1½-2% range remained undisturbed.

Gasoline prices declined an estimated 4 cents at the pump in January from prior-month levels, roughly in line with the decline in estimated refiners' crude costs of about $2 per barrel. Price decreases focused on the unleaded gasoline market because compliance with recent lead phasedown regulations has increased the cost of producing leaded gasolines; as a result, the spread between leaded and unleaded gasolines continued to narrow.

Unleaded gasoline reached a close-to-69% market share in January, about five percentage points above year-earlier levels.

Distillates

DELIVERIES ABOUT THE SAME AS LAST JANUARY'S.

Distillate deliveries rose 5 thousand B/D (0.1%) in January compared with the prior year's level. Weather was about 19% warmer than last year, decreasing distillate demand by an estimated 270 thousand B/D. Rail traffic has recently been about 6% above year-earlier levels, and truck traffic, down year-to-year in late 1985, is estimated to have regained some strength. Overall, however, the plus effect on distillate deliveries from improved rail and truck traffic is estimated to have been only about 25 B/D. The uncertainty prevailing in distillate markets in January is not likely to have had a significant effect on deliveries into secondary storage. That distillate deliveries were about equal to last year's despite the substantial weather effect is caused in good part by the comparison with an unusually low level of distillate deliveries last January. Deliveries for that month were some 125 thousand B/D below the early-1985 trend.

Residual Fuel Oil

14% LOWER DELIVERIES THAN LAST JANUARY. Deliveries of residual fuel oil fell 207 thousand B/D (14.0%) compared with year-earlier levels. This rate of decline is out of line with recent-month developments, when deliveries, on average, were close to prior-year levels. The fact that January 1985 deliveries were some 50-100 thousand B/D above prevailing trend explains a portion of the year-to-year decrease in delivery levels. However, the balance of the decrease is still large enough to be somewhat surprising in view of the substantial residual fuel oil price decline on spot and contract markets. Spot prices late in the month equaled—and in many cases fell below—the 1985 lows experienced last June; contract prices, too, dropped substantially, reaching levels some $5 below early-1985 price levels. Natural gas prices, on the other hand, seemingly did not experience any further significant erosion during January. However, with transportation problems arising from recent changes in natural gas regulations still affecting natural gas deliverability, and resid prices falling, it is likely that the industrial sector, with its sizable dual-fuel capability, experienced some volume improvement. However, the speed and degree of late-month price changes may have been too great to affect normal purchase patterns, and the size of the swing to resid by this sector is, therefore, believed to be small.

The year-to-year deficit is thus likely to be mainly the result of lower purchases by the electric utilities sector. Generation was down about 2% in January, compared with a year ago; in addition, it appears unlikely that the late-January decline in resid prices was in time to significantly affect resid's continuous downtrend as an input to electric utility plants, which has, over the past decade, reduced petroleum's share by about three quarters.

Little change is estimated to have occurred in the level of bunker fuel deliveries. Late-1985 deliveries had experienced lessening year-to-year decreases, a trend that is likely to have carried through to January.

One element of uncertainty in comparing resid delivery levels, however, is that some resid imports were apparently used as feedstock last year, though the magnitude of that misclassification is not yet available.

Kerosine Jet Fuel

UP 12% FROM PRIOR-YEAR LEVELS. For the fourth month in a row, deliveries in January exceeded the one-million-barrel-per-day level, rising 12.1% over last January's. Miles flown levels experienced year-to-year increases averaging more than 6% in late 1985; judging from the relatively-close longer-range correspondence of changes in miles flown and jet fuel deliveries, the substantial level of kerosine jet fuel deliveries in January indicates that the high level of increases in miles flown is likely to have continued.

Other Oils

UP ABOUT 2% OVER JANUARY 1985 LEVELS. Deliveries of "other oils" rose 81 thousand B/D (2.1%) compared with January 1985 deliveries levels. The estimated increase is likely to have been in part the result of some strengthening in chemical industry activity, which may have benefited petrochemical deliveries.

For "other oils", too, the immediate impact of recent petroleum market developments is difficult to assess. Prices for liquefied petroleum products, for example, which had been rising steadily in late 1985, plummeted in January, late-month quotations dipping below those existing prior to the late-1985 price surge and year-earlier price levels. The price decline in part mirrored product price decreases in other petroleum markets but also appears to have been a reflection of declining demand for some liquefied petroleum products.

Generally speaking, falling fuel prices have been changing the alternate use value of liquefied petroleum products and refinery petrochemicals, a factor that complicates analysis of individual product performance.

For 11 months of 1985, ethane demand had been about 15 thousand B/D (2.4%) below the corresponding 1984 period, and this pattern is estimated to have continued into January. Furthermore, as prices weakened, some product extraction may have been reduced. Deliveries of propane increased 30 thousand B/D during the 11-month comparison period; butanes increased slightly, responding to continued strong demand in connection with the lead phasedown program, a trend that is likely to have continued into January.

Recent increases in road oil and asphalt deliveries of around 3% are believed to have continued as a result of rising state and local budget allocations.

(In millions of B/D)

	JANUARY ESTIMATES		
	1986	1985	% Change
—Total domestic products supplied	16.4	16.1	1.4
—Motor gasoline supplied	6.6	6.3	4.9
—Distillate fuel oil supplied	3.5	3.5	0.1
—Residual fuel oil supplied	1.3	1.5	(14.0)

SUPPLY[2/]

Total supply was an estimated 1,782 thousand B/D higher than in January 1985, resulting from a 703 thousand B/D increase in total domestic supply and a 1,079 thousand B/D increase in imports.

Production

3% HIGHER THAN LAST JANUARY'S. Total U.S. crude oil production rose 273 thousand B/D (3.1%) over January 1985 levels. The sizable year-to-year increase is mainly the result of interruptions in Alaskan pipeline flow last January, which caused production to fall some 100 thousand B/D below then-prevailing levels. The remainder of the increase is the result of higher output at Kuparuk and new production at Milne Point. Reversing a trend of prior months, lower 48 production rose 50 thousand B/D in January.

Imports

ROSE 26% OVER LAST YEAR'S LEVEL. The 1,079 thousand B/D imports increase over last January's level essentially results from comparison with the low levels experienced a year ago, when an anticipated downward adjustment in crude prices slowed purchase commitments. Crude imports accounted for about three-quarters of the increase. Following some price weakness in December, further price erosion was experienced as January wore on, though major deterioration was initially limited to spot markets. However, while there was little change in consumption, world crude production levels were on the rise. The added supply, often sold as part of the growing number of netback arrangements, eventually affected prices on petroleum markets worldwide. The bulk of the price decreases, however, probably occurred too late to affect shipments received in January, especially for long-haul imports. Gasoline imports (including gasoline components), as a result of a late-month surge, rose an estimated 30-40 thousand B/D from January 1985 levels but continued to be at considerably lower levels than in preceding months. Distillate imports rose by about 80 thousand B/D; supplies were readily available at rapidly-declining prices. About two-thirds of all distillate imports during the first 11 months of 1985 originated in Mexico, Venezuela, and the Caribbean, a week's steaming time or less from the U.S., with most of the remainder coming from Canada.

Mexico was also the number one source of total petroleum imports in November, followed by Venezuela, Canada, Saudi Arabia, and the United Kingdom, in that order. It is noteworthy that November imports from Saudi Arabia, at 430 thousand B/D, were more than twice the prior-November's rate.

Inventories

DOWN 6 MILLION BARRELS FROM DECEMBER LEVELS. Total inventories fell about six million barrels, a fraction of the normal seasonal decline; crude oil inventories rose 4 million barrels. The sizable level of imports and continued domestic production increases, at a time when demand was rising at less than 1½%, helped to hold the total January drawdown to a minimum. The low January inventory draw, however, is in good part the result of the relatively small drawdown of distillate inventories; in January distillate stocks have historically declined about 30 million barrels, but fell only 6 million barrels this January because of warmer weather and the continued high level of domestic distillate output. Distillate production again exceeded 3 million barrels per day, the third consecutive month of production at similar, relatively-high levels.

Operations

UTILIZATION ALMOST 6 PERCENTAGE POINTS ABOVE LAST YEAR'S LEVEL. Utilization of operable capacity remained above the 80% level in January, 5½ percentage points above year-earlier levels. On average, operable capacity was more than 200 thousand B/D greater than a year ago, but input to crude oil distillation rose by more than one million B/D. The counterseasonal trend in inventory levels is essentially the result of this relatively strong level of refinery operation.

(In millions of B/D)

	JANUARY ESTIMATES		
	1986	1985	% Change
—Total supply	17.0	15.3	11.7
—Crude production[2]	9.0	8.7	3.1
—Crude oil imports[3/4]	3.3	2.5	34.3
—Product imports	1.9	1.7	13.7

1/ Total supply, i.e., production plus imports adjusted for net stock change is equal to total products supplied from primary storage. Total products supplied from primary storage less exports is equal to total domestic products supplied. Information contained in this report is derived from information published in the API Weekly Bulletin and is based on historical analysis of the industry. All data reflect the most current information available to the API and include all previously published revisions.

2/ Includes lease condensate.

3/ Beginning with January 1977, the U.S. Department of Energy began reporting crude oil imports as of the date of importation. Previously, this data, with the exception of Canadian crude imports, was reported as of the date it was received at the refinery. This change may affect both the level of crude oil imports and crude oil stocks. API estimates of these data may, therefore, differ slightly from those of the U.S. Department of Energy.

4/ API data do not include crude oil imported for the Strategic Petroleum Reserve (SPR) nor crude oil stocks held in the SPR (according to the U.S. Department of Energy, the SPR held approximately 494 million barrels as of January 31, 1986.

ESTIMATED UNITED STATES PETROLEUM BALANCE

(Daily Average in Thousands of 42 Gallon Barrels)

Products Supplied / Supply From Primary Storage	JANUARY			YEAR-TO-DATE		
	1986[1]	1985[2]	% Change	1986[3R]	1985[2]	% Change
Products Supplied:						
Total motor gasoline	6,647	6,336	4.9			
Finished leaded motor gasoline*	2,087	2,319	(10.0)			
Finished unleaded motor gasoline*	4,560	4,026	13.3			
Naphtha-jet	221	218	1.4			
Kerosine-jet	1,111	941	18.1			
Distillate fuel oil	3,467	3,462	0.1			
Residual fuel oil	1,274	1,481	(14.0)			
All other oils[4]	3,977	3,896	2.1			
Reclassified[5]	- 320	- 241	32.8			
Total domestic products supplied	16,377	16,143	1.4			
Exports	842	792	6.3			
Total products supplied	17,219	16,935	1.7			
Supply:						
Domestic production:						
Crude oil[6]	8,950	8,677	3.1			
Natural gas liquids	1,630	1,642	(0.7)			
Other supply[7]	1,220	778	56.8			
Total domestic supply	11,800	11,097	6.3			
Imports:						
Crude oil, total	3,127[10/]	2,478[10/]	14.3			
Canadian	423	342	23.7			
Other	2,904	2,136	36.0			
Products, total	1,906	1,676	13.7			
Residual fuel oil	521	594	(12.3)			
Other	1,385	1,082	28.0			
Total imports	5,233	4,154	26.0			
Total supply	17,033	15,251	11.7			
Stock change, all oils	- 186	-1,684	XXXX			
Refinery Operations						
Input to crude oil distillation units	12,634	11,587	9.0			
Operable capacity	15,674	15,434	1.6			
Refinery utilization (%)[8]	80.6[7]	75.1[7]	7.3			
Crude oil runs	12,461	11,456	8.8			

Stocks (millions bbls.)	1986	1985	1985[2]	% Change from	
	Jan. 31[9]	Dec. 31[9]	Jan. 31	Previous Month	Year Ago
Crude oil[10/]	326.3	322.0r/	336.1	1.3	(2.9)
Unfinished oils	103.0	107.8	100.4	(4.5)	2.6
Total motor gasoline**	236.8	226.7	234.0	4.5	1.2
Finished leaded motor gasoline*	79.8	80.4	88.5	(0.7)	(9.8)
Finished unleaded motor gasoline*	118.4	110.6	109.3	7.1	8.3
Naphtha-jet	6.6	6.4	6.4	3.1	3.1
Kerosine-jet	35.1	34.4	34.6	2.0	1.4
Distillate fuel oil	137.1	143.5	141.8	(4.5)	(3.3)
Residual fuel oil	48.5	48.2	46.8	0.6	3.6
All other oils	141.4	151.5r/	152.3	(6.7)	(7.2)
Total all oils	1,034.8	1,040.5r/	1,052.4	(0.5)	(1.7)

1. Based on API estimated data converted to a monthly basis.
2. Source: U.S. Department of Energy.
3. Source:
4. Includes crude losses.
5. Beginning with January 1981, U.S. Department of Energy began using a new data collection system which encompasses a method to ascertain the amount of product reclassified during the production phase. So that there will be no double-counting of these volumes, they are subtracted from total domestic products supplied.
6. Includes lease condensate.
7. Includes Unaccounted-for crude oil, Refinery input of other hydrocarbons, and Processing gain.
8. Represents "Input to crude oil distillation units" as a percent of "Operable capacity."
9. Derived by interpolating API weekly stocks data.
10. Data do not include oil imported for the Strategic Petroleum Reserve (SPR) nor crude oil stocks held in the SPR.

R. Revised.

* Included in motor gasoline.

** Includes finished leaded, finished unleaded, and motor gasoline blending components stocks.